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BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE CHAIRMAN	BOB BURNS COMMISSIONER	DOUG LITTLE COMMISSIONER
ANDY TOBIN COMMISSIONER	BOYD DUNN COMMISSIONER	

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	**DOCKET NO. E-01345A-16-0036** **DOCKET NO. E-01345A-16-0123**
IN THE MATTER OF FUEL AND PURCHASED POWER PROCUREMENT AUDITS FOR ARIZONA PUBLIC SERVICE COMPANY.	**ENERGY FREEDOM COALITION OF AMERICA'S POST HEARING BRIEF**

ENERGY FREEDOM COALITION OF AMERICA

POST-HEARING BRIEF

May 17, 2017

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Energy Freedom Coalition of America ("EFCA"), by and through its undersigned counsel, hereby submits its Post-Hearing Brief.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION AND STATEMENT OF FACTS.

EFCA is one of numerous parties that have entered into a Settlement Agreement with the Arizona Public Service Corporation ("APS" or the "Company"). The Settlement Agreement resolves many issues that were previously contested, including issues related to the treatment of and rates applied to customers utilizing distributed generation solar systems ("DG"), the creation of a residential rate to incent the adoption of storage and peak reducing technologies, grandfathering of DG customers, the amount of basic service charges, and the implementation of conclusions reached in the Value of Solar docket. The Settlement Agreement was negotiated in good faith and is fair for not only the signatories thereto, but also for all customers in APS territory. The Settlement Agreement should therefore be adopted as proposed.

The sole issue carved out in the Settlement Agreement, however, is whether the Arizona Corporation Commission (the "ACC" or "Commission") should adopt EFCA's proposed optional non-ratchet Large Generation Service ("LGS") tariffs (the "Optional Rates"). If adopted, these Optional Rates would be available to customers taking service under APS' E-32-L and E-32-L Time of Use ("TOU") rates, both of which currently incorporate a demand ratchet (the "LGS Ratchet Rates").

The Optional Rates were proposed as part of EFCA witness Garrett's Reply testimony.[1] Specifically the Optional Rates are designed as follows:

[1] Garrett Reply Test., Ex. 14 at 15:1-16:8.

Table 1: Optional LGS Storage Rates

Source: EFCA 29.1 and EFCA 31.5(c)	Rate Class E-32-L APS Proposed Settlement kW Rates (with Ratchet)	APS Units	APS Proposed Revenue Settlement	Step 1 - Remove Ratchets EFCA Proposed No Ratchet	EFCA Units	EFCA Proposed Revenue	Step 2 - Remove Tiers Avg Rev	Avg Units	EFCA Proposed Rates
Summer Days									
kW Secondary tier 1	$ 25.37	437,397	$11,097,637	$ 26.71	415,527	$11,097,637	$ 58,489,047	2,972,860	$ 19.67
kW Secondary tier 2	17.61	2,691,929	47,391,410	18.53	2,557,333	47,391,410			
kW Primary tier 1	23.05	34,800	802,105	24.26	33,060	802,105	8,030,347	451,488	$ 17.79
kW Primary tier 2	16.41	440,451	7,228,241	17.27	418,428	7,228,241			
kW Transmission tier 1	17.62	2,600	45,822	18.55	2,470	45,822	364,199	28,205	$ 12.91
kW Transmission tier 2	11.75	27,089	318,377	12.37	25,735	318,377			
Proof Summer Demand Revenue			$66,883,593			$66,883,593	$ 66,883,593		
Winter Days									
kW Secondary tier 1	$ 25.37	441,333	$11,197,501	$ 26.71	419,266	$11,197,501	$ 54,325,948	2,746,561	$ 19.78
kW Secondary tier 2	17.61	2,449,784	43,128,447	18.53	2,327,295	43,128,447			
kW Primary tier 1	23.05	35,600	820,544	24.26	33,820	820,544	$ 7,614,387	427,102	$ 17.83
kW Primary tier 2	16.41	413,981	5,793,842	17.27	393,282	6,793,842			
kW Transmission tier 1	17.62	2,400	42,298	18.55	2,280	42,298	$ 343,433	26,621	$ 12.90
kW Transmission tier 2	11.75	25,622	301,135	12.37	24,341	301,135			
Proof Winter Demand Revenue			$62,283,768			$62,283,768	$ 62,283,768		

Table 2: Optional LGS-TOU Storage Rates

Source: EFCA 29.1 and EFCA 31.5(c)	Rate Class E-32-TOU-L APS Proposed Settlement kW Rates (with Ratche	APS Units	APS Proposed Revenue	Step 1 - Remove Ratchets EFCA Proposed (No Ratchet)	EFCA Units	EFCA Proposed Revenue kW Rates (No Ratchet)	Step 2 - Remove Tiers and Off Peak kW Avg Rev	Avg Units	EFCA Proposed Rates
Summer Days									
kW tier 1 - secondary - on	$ 17.51	27,250	$ 477,093	$ 18.43	25,888	$ 477,093	$ 3,678,113	216,890	$ 16.96
kW tier 2 - secondary - on	11.80	201,055	2,371,444	12.42	191,002	2,371,444			
kW tier 1 - secondary - off	6.40	27,223	174,118	6.73	25,862	174,118			
kW tier 2 - secondary - off	3.37	194,498	655,458	3.55	184,773	655,458			
kW tier 1 - primary - on	16.94	5,700	96,535	17.83	5,415	96,535	$ 1,257,187	75,627	$ 16.62
kW tier 2 - primary - on	11.71	73,907	865,451	12.33	70,212	865,451			
kW tier 1 - primary - off	5.68	6,115	34,727	5.98	5,809	34,727			
kW tier 2 - primary - off	3.27	79,607	260,474	3.44	75,627	260,474			
kW tier 1 - transmission - on	15.92	573	9,120	16.75	544	9,120	$ 149,693	10,075	$ 14.86
kW tier 2 - transmission - on	10.48	10,032	105,115	11.03	9,530	105,115			
kW tier 1 - transmission - off	4.87	559	2,723	5.13	531	2,723			
kW tier 2 - transmission - off	3.14	10,435	32,735	3.30	9,913	32,735			
Proof Summer Demand Revenue			$ 5,084,993			$ 5,084,993	$ 5,084,993		
Winter Days									
kW tier 1 - secondary - on	$ 17.51	36,700	$ 642,544	$ 18.43	34,865	$ 642,544	$ 3,681,359	217,795	$ 16.90
kW tier 2 - secondary - on	11.80	192,558	2,271,222	12.42	182,930	2,271,222			
kW tier 1 - secondary - off	6.40	26,700	170,773	6.73	25,365	170,773			
kW tier 2 - secondary - off	3.37	177,098	596,820	3.55	168,243	596,820			
kW tier 1 - primary - on	16.94	5,280	89,422	17.83	5,016	89,422	$ 905,811	54,593	$ 16.59
kW tier 2 - primary - on	11.71	52,186	611,098	12.33	49,577	611,098			
kW tier 1 - primary - off	5.68	5,376	30,530	5.98	5,107	30,530			
kW tier 2 - primary - off	3.27	53,411	174,761	3.44	50,740	174,761			
kW tier 1 - transmission - on	15.92	576	9,168	16.75	547	9,168	$ 171,302	11,747	$ 14.58
kW tier 2 - transmission - on	10.48	11,789	123,525	11.03	11,200	123,525			
kW tier 1 - transmission - off	4.87	576	2,806	5.13	547	2,806			
kW tier 2 - transmission - off	3.04	11,789	35,803	3.20	11,200	35,803			
Proof Winter Demand Revenue			$ 4,758,472			$ 4,758,472	$ 4,758,472		

The Optional Rates remove the barriers to energy storage inherent in the current LGS rates by implementing a revenue neutral and cost based three-part rate with monthly demand charges instead of annual ratchets. If adopted, the Optional Rates will lead to deferred infrastructure costs for all ratepayers and reduce costs long-term. In opposing EFCA's request, APS is asking the Commission to reverse course and ignore its recent decision in the Tucson Electric Power ("TEP") rate case wherein it ordered exactly what EFCA seeks in this docket.

As set forth below and supported by the evidence, adoption of EFCA's proposed Optional Rate: (1) sends actionable and superior price signals that facilitate deployment of energy storage (as well as other energy efficiency mechanisms); (2) provides a cost based price signal that better encourages customers to reduce peak energy consumption; (3) removes existing barriers to adoption of energy storage and other mechanisms created by the inclusion of ratchets in the current LGS Ratchet Rates; (4) would lead to cost savings for all ratepayers by decreasing the need for additional infrastructure to accommodate increasing load; (5) is revenue neutral; and (6) is consistent with ACC precedent towards moving away from ratchets and favoring adoption of energy storage.

EFCA will also demonstrate that the alternative proposal the Company has advanced in lieu of the Optional Rates is unavailing. APS' proposal would maintain the ratchet and all its muted and inefficient price signals, thereby failing to promote peak demand reduction and adoption of energy storage and other energy efficiency and demand side mechanisms while also creating an unnecessary subsidy in the form of an incentive to attempt to overcome the barriers a ratcheted rate artificially creates. Further, EFCA will show that APS' current opposition to the Optional Rates are noticeably inconsistent with its own prior testimony in this proceeding.

Finally, although EFCA advocates for adoption of the Optional Rates as proposed, it is not opposed to certain modifications if the same would allay any Company or Commission concerns.

In adopting the Optional Rates, the Commission would be supporting its recent directive to transition away from ratchets and promote price signals and technology that reduce on-peak demand.

II. THE COMMISION SHOULD ADOPT EFCA'S PROPOSED OPTIONAL RATES.

EFCA's Optional Rates are in the public interest and should be adopted because of the important benefits they provide to customers and ratepayers alike. The Optional Rates constitutes sound public policy and further important Commission objectives regarding peak demand reduction and energy storage. The rate is revenue neutral, and is designed to accomplish these objectives equitably, without shifting costs. Ultimately, the Optional Rates are designed to generate savings to all APS ratepayers without the use of complicated incentive programs or subsidies, and to allow customers seeking to adopt behind the meter technologies such as energy storage the opportunity to do so.

A. *APS' LGS Ratchet Rates Currently Act as an Impediment to Adoption of Energy Storage and other Energy Efficiency Measures*

i. Demand ratchets serve as an impediment to adoption of storage.

Energy storage and other energy efficiency mechanisms are effective in that they reduce peak demand on the utility grid which reduces the need for expensive grid investment to serve that demand. Monthly demand charges send price signals that commercial customers can react to in order to reduce peak demand, but ratchets do not send appropriate price signals and instead serve as an impediment to the adoption of energy storage and other energy efficiency mechanisms.[2] The Optional Rates remove the each of the barriers to peak demand reduction identified below.

a. Ratchets act like unavoidable fixed charges and therefore send poor price signals.

All parties, including APS, agree that fixed charges do not send a price signal to adopt energy efficiency and storage because fixed charges nullify the benefits stemming

[2] *See generally* Garrett Tr., Vol. VII at 1210:6-13.

from demand reduction.[3] When a customer adopts energy efficiency mechanisms such as storage, these measures reduce peak demand, which in turn decreases the variable/cost based portion of their bill.[4] However, "[t]he fixed part of the bill stays the same. And so the customer does not see the price signal and does not get the economic value that they would get if more of the bill was in the energy charge."[5] Thus, the greater the fixed fee, the less control a customer has to lower their bill and the less impetus exists to reduce peak demand by utilizing energy efficiency mechanisms such as storage.[6]

Ratchets essentially act as a substitute for a fixed charge. This is a conclusion reached by SWEEP,[7] Commission Staff,[8] and EFCA.[9] NARUC, the National Association of Utility Commissioners, has stated in its rate manual that ratchets "reduce a customer's ability to have a clear price signal and to be able to react to that and potentially save on its bill. A ratchet could make a rate closer to an unmoving fixed charge."[10] The Optional Rates implement a monthly demand charge that provides the customer with a strong and consistent price signal instead of an annual fixed ratchet. Unlike the fixed charge-like ratchet, the Optional Rates will encourage customers to reduce their usage when that reduction is most needed – during APS' system peak. As EFCA witness Garrett explained, the rate provides "strong, fair price signals to reduce peak load."[11] APS witness Miessner agreed that monthly demand charges send more immediate price signals to reduce demand than ratcheted rates.[12] With the ratchet removed, the monthly demand charge reflects the

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[3] *See* Miessner Tr., Vol. III at 446:6-13 ("if you can't reduce the charge, it sends a price signal that says here is my cost of service for you, but it isn't a price signal you can react to or reduce."); Smith Tr., Vol. VI at 999:20-1000:6; Garrett Tr., Vol. VII at 1220:14-19.

[4] Schlegel Tr., Vol. VII at 1155:25-1156:3.

[5] Schlegel Tr., Vol. VII at 1156:4-7.

[6] Garrett Tr., Vol. VII at 1220:6-13.

[7] Schlegel Tr., Vol. VII at 1155:20-1156:16 (responding "yes" when asked if a ratchet is similar to a fixed charge and if a monthly demand charge sends a better price signal).

[8] Smith Tr., Vol. VI at 1000:7-22 (stating that typically, "a demand ratchet built into rates is to ensure cost recovery if the customers' demand drops off after a certain point.").

[9] Garrett Tr., Vol. VII at 1220:17-20 ("What we have is demand rates with ratchets which kills the signal to move anything off of peak. So ratchets are a fixed charge . . . ."), 1240:21-1241:2 ("Well, with the ratchet in place, you're really not going to save money from the implementation of energy efficiency measures, because the ratchet is going -- it acts as a fixed cost, and you're going to keep paying month after month after month the same thing, no matter how much you reduce load from energy efficiency measures.").

[10] EFCA Ex. 11, *Distributed Energy Resources Rate Design and Compensation* at 114.

[11] Garrett Tr., Vol. VII at 1208:23-25.

[12] Miessner Tr., Vol. III at 445:16-24.

customer's actual monthly demand, and in turn, rewards those customers who reduce demand immediately by sending a constant and strong price signal. In the absence of such a price signal to reduce load, there is no economic reason to adopt storage. "Customers are less likely to invest in storage if they cannot realize the economic benefits. APS's existing ratchet is simply not conducive to the adoption of storage."[13]

b. Ratchets make storage investments unreasonably risky.

Once APS' ratchet is set in this case, it cannot be re-adjusted for eleven subsequent months, regardless of whether the customer dramatically reduces demand or consumption.[14] The ratchet is set based on a customer's highest usage during any 15-minute interval in the summer months. As a result, just a single unexpected or unmitigated demand surge can set the ratchet for the next year, thereby depriving the customer of a year's worth of price signals to lower demand in the current month to receive immediate benefit.

Even APS' own independent rate design expert recognizes the unfair risk the demand ratchet creates. On this point Dr. Faruqui stated in a presentation maintained on his company website, "the risk that an unlucky customer will then be locked in at that rate for a long period even though their demand at the time was not representative of their expected capacity needs or the true costs they impose on the grid."[15]

c. APS' Ratchet does not send a price signal to lower usage below 80% of the customer's annual peak.

Because the ratchet is locked in on an annual basis, it essentially "kills the signal to move anything off of peak" and does not send a price signal to adopt storage or any other efficiency measure that would "reduce demand to lower than 80 percent of the previous twelve-month usage."[16]

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[13] Garrett Tr., Vol. VII at 1203:16-20; *accord* Schlegel Tr., Vol. VII at 1155:23-1156:16.

[14] Miessner Tr., Vol. III at 453:20-24.

[15] Garrett Direct Test., EFCA Ex. 4 at Ex. B, "A Conversation About Standby Rates," Ahmad Faruqui

[16] Garrett Tr., Vol. VII at 1202:18-1203:5, 1220:14-15; *see also* Meissner Tr., Vol. III at 444:4-12 (when asked whether a customer achieving a decrease in demand to 80% would lack the price signal to decrease demand beyond that threshold in the LGS Ratchet Rates, he confirmed that a strong price signal did not exist.).

APS witness Miessner agreed that there was a "reduced incentive" for customers to reduce their demand by more than twenty percent under the ratchet once it is set.[17] He also agreed that if monthly demand charges were utilized instead of ratchets, customers would have "an immediate price signal to lower their demand as much as possible," which could be accomplished via utilization of energy storage. He conceded that customers with storage would not benefit as much under ratchets as they would under a traditional monthly demand rate.[18]

d. Ratchets delay the customer's ability to get the full benefit of a storage investment for a year

Because of the annual reset of the ratchet, a customer installing storage (or other energy efficiency devices) must wait an entire year prior to recognizing the full benefit of their investment. APS witness Miessner conceded that full storage benefits could potentially be delayed for up to one year as a result of ratchets (i.e., the benefit would be delayed until the ratchet rate was reset accounting for the decrease in demand resulting from energy storage).[19]

Notably, despite making the general assertion that the current rates "provide no barriers for the adoption of energy storage"[20] and that "the E-32-L rate design today with a ratchet is perfectly appropriate for a well-designed and efficient technology that can reduce demand across the board,"[21] none of the Company's four witnesses could identify *a single* storage project installed by *any* LGS customer.[22]

ii. Declining Block Rates and Off-Peak Demand Charges Impede Storage and Peak Reduction

The LGS Ratchet Rates feature two additional barriers to storage adoption that should be removed. Both the E-32L and E-32L TOU rates include a declining block

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[17] Miessner Tr., Vol. III at 443:14-15.
[18] Miessner Tr., Vol. III at 445:20-25, 455:12-24.
[19] Miessner Tr., Vol. III at 445:16-24, 459:6-21, 460:15-20 (acknowledging that the price signal sent requires the customer to wait a year before impact of current month demand reduction could be recognized).
[20] Lockwood Tr., Vol. II at 228:9-14.
[21] Lockwood Tr., Vol II at 230:4-7.
[22] Lockwood Tr., Vol II at 244:8-10; Miessner Tr., Vol III at 469:17-22; Bordenkircher Vol. IV at 594:4-8; Snook Tr., Vol V at 877:22-878:5.

demand charge, and the E-32L TOU rate features an off-peak demand charge. Neither of these features have a place in a rate design intended to foster peak reduction and storage deployment.

The declining block design is antithetical to Commission policy because instead of encouraging customers to reduce demand that can benefit all customers, it rewards individual customers in this class for increasing demand by providing a discount for every kW exceeding 100 kW.[23] According to the Regulatory Assistance Project, this antiquated rate design feature has "fallen out of favor because they reward greater energy usage by the customer and do not properly reflect the increased costs associated with new resources needed to supply greater usage. They also undermine the economics of energy efficiency and renewable energy by reducing the savings a customer can achieve by reducing energy purchases from the utility."[24] EFCA witness Garrett noted that APS' declining block is particularly poor because "as it is structured, the first block is so small that large commercial customers could hardly be expected to avoid this minimum usage amount. Because of this fact, the declining block demand charge sends no price signal and acts as an unavoidable fixed charge on the customer's bill.[25]"

If the Commission's objective is to send a price signal to reduce demand, customers should not be subject to a charge that is essentially fixed and cannot be avoided. The Commission should permit customers to avoid this counterproductive feature by including a demand charge featuring a flat charge[26] in the Optional Rates, as EFCA has proposed.[27] "This would turn this fixed charge feature into a feature that would encourage peak load reduction,"[28] as EFCA witness Mark Garrett explained.

The off-peak demand charge featured under the E-32L TOU rate is similarly problematic. This particular rate feature is punitive and unnecessary. EFCA witness Garrett clarified that, "Rates should be cost-based and designed to incentivize desired consumption

[23] Garrett Direct Test., EFCA Ex. 4 at 13:10-13.
[24] Garrett Direct Test., EFCA Ex. 4 at 13:17-21 (quoting the Regulatory Assistance Project's "Smart Rate Design for a Smart Future").
[25] Garrett Tr., Vol. VII at 1204:5-10.
[26] Garrett Tr., Vol. VII at 1204:11-14.
[27] Garrett Reply Test., Ex. 14 at 15:1-16:8.
[28] Garrett Tr., Vol. VII at 1204:14-15.

patterns. Given the fact that increased peak demand drives additional costs to ratepayers, the goal, as has been expressed by this Commission in the prior decisions cited in this testimony, is to incentivize efficient consumption and load shifting to off-peak periods. From this perspective, there appears to be no justification for off-peak demand charges."[29] In other words, if the goal is to reduce peak demand and encourage off-peak consumption, why would we hit customers with an increased charge for actually accomplishing the goal of shifting their peak consumption off peak? Therefore, because peak demand drives costs, there is no cost-based rationale for the off-peak charge. As such, the off-peak demand charge should not be included in the Optional Rates.

B. The Optional Rates will Reduce Peak Demand and Save all Ratepayers Money.

The Optional Rates are both necessary and timely, due to the fact that APS is anticipating an astonishing 50% load growth over the next 15 years.[30] The Company will need to develop significant peaking resources to meet such demand.[31] APS acknowledged that it is projecting a need for 5,387 MW of additional natural gas peaking resources by 2032.[32] In the next two years alone, APS is predicting a 6% increase in load growth[33] and 3% growth annually during the next fifteen years.[34] APS witness Snook acknowledged that the investments in natural gas generation to meet this growing need will cost billions of dollars.[35]

Storage deployment can begin offsetting these costs *immediately*. In light of APS' projections, it is clear that "the time is now to move as much load as possible off peak to help defer and reduce the high costs that load growth will cause over the next several years. This optional storage rate focused on the large commercial class has the potential of providing a meaningful load offset to the company's significant expected growth . . . Given the short time horizon over which this load growth is coming, there really isn't any time to

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[29] Garrett Direct Test., EFCA Ex. 4 at 14:26-15:3.
[30] Garrett Tr., Vol. VII at 1208:10-19.
[31] EFCA Ex. 12, "APS 2017 Integrated Resource Plan." ("Resource Plan")
[32] Snook Tr., Vol. VII at 1190:19-1191:8.
[33] Garrett Tr., Vol. VII at 1217:1-11.
[34] EFCA Ex. 12, Resource Plan at 33.
[35] Snook Tr., Vol. VII at 1193:16-19.

delay . . . the Commission [should] put this rate option in place now so that the customers can be given strong, fair price signals to reduce peak load."[36]

EFCA presented evidence that not only would the Optional Rates help customers use storage to offset these needs, but that the large size of eligible customers means that there is potential for more significant peak reduction than would be possible in other rate classes.[37] The benefits of peak demand reduction are amplified significantly due to the size of eligible commercial customers, and the rate enables greater peak demand reduction than would be possible in other rate classes. For example, a single LGS customer "moving load off peak could potentially move as much load as 200 residential customers [who adopt storage]."[38] For these reasons, the Optional Rates constitutes an effective and efficient means of providing the price signal necessary to encourage customers to reduce peak usage via adoption of efficiency measures like energy storage.

Indeed, one of the greatest benefits of energy storage is the technology's ability to defer or reduce entirely APS' acquisition of new capacity.[39] The Commission has recognized the importance of energy storage technology due to its ability to reduce customer demand during system peak.[40] Commission Staff confirmed that "a reduction in peak demand could help offset the need for supplies that would be constructed to meet the peak demand."[41] Further, if customers move their demand off-peak, the utility will avoid building additional infrastructure, which in turn avoids charges that would be placed on the rate base as a whole.[42] "If the utility doesn't incur costs and avoids building stuff, generally customers are not charged for it."[43] As a result, the benefits of energy storage will ultimately be enjoyed by all customers in the form of reduced future rate increases.

Prior to EFCA proposing the Optional Rates, APS itself confirmed over and over again the need for rates that encourage adoption of energy storage to reap the benefits of

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[36] Garrett Tr., Vol. VII at 1208:12-25.
[37] Garrett Tr., Vol. VII at 1208:12-19, 1218:9-11.
[38] Garrett Tr., Vol. VII at 1218:9-11.
[39] Garrett Tr., Vol. VII at 1217:12-19.
[40] *See* Decision No. 75679.
[41] Smith Tr., Vol. VI at 999:12-14.
[42] Smith Tr., Vol. VI at 1067:1-18.
[43] Smith Tr., Vol. VI at 1067:16-18.

peak demand reduction. The Company acknowledged that the very purpose of this rate case is to head towards a "future" wherein "resource potential includes customers' adoption of a variety of new and continually improving technologies such as . . . distributed generation with energy storage systems . . . [and to] make this work, APS must provide effective prices that both reflect cost and incent the right technologies — those that provide flexibility for APS generation requirements and are most effective in reducing APS summer peak demand, which drives so much of the Company's grid costs."[44]

The Company also recognizes that customers that can reduce their load at the time of system peak can reduce APS' need to invest in gas resources,[45] and that a reduction in peak demand could help offset the infrastructure needed to meet that demand as well.[46] APS' strong contention that rates should be designed to benefit all ratepayers by incenting customers to shift load off peak was perhaps best articulated by APS' own Jim Wilde in his direct testimony during the initial phase of the hearing:

> Since APS must build or procure sufficient resources to meet summer-time peak demand, a rate structure that coincides with that peak demand would be appropriate. Without demand rates, customers do not have as much of an incentive to reduce demand at the time of peak. As a result, APS will need to build or procure more resources than otherwise would be necessary. With demand rates, customers would receive a price signal that would further incentivize them to reduce consumption at the time of peak. By aligning customer price signals with peak demand, APS could defer building or procuring resources in the future since customers would be incentivized to reduce demand.[47]

C. The Evidence as well as Commission Precedent Support Adoption of the Optional Rates.

i. Commission Precedent Supports Adoption of the Optional Rates.

The Commission has shown leadership regarding the development of battery storage technology and peak reduction strategies. Most importantly, the Commission

[44] Miessner Direct Test., APS Ex. 4 at 6:5-19.
[45] Snook Tr., Vol. VII at 1193:20-1194:1.
[46] Smith Tr., Vol. VI at 999:12-14.
[47] Wilde Direct Test., APS Ex. 19 at 16:10-18.

recently required TEP to implement an optional, non-ratcheted rate to facilitate storage adoption for its large general service customers in future rate cases.[48] This is exactly what EFCA seeks in this docket. In August of 2016, Commissioner Tobin and then-Commissioner Stump hosted a workshop on "Reducing System Peak Demand Costs" to investigate the development of energy storage options for Arizona.[49] The Commission has also shown its support for storage development through the approval of a $4 million program to implement energy storage under APS' Demand Side Management Implementation Plan.[50]

In the UNS decision, the Commission expressed its general negative position on ratchets stating:[51]

> Ratchets can send incorrect pricing signals by redirecting cost recovery away from the periods in which the cost is incurred . . . Demand ratchets may be characterized as a substitute for rates that actually reflect cost cassation [sic]. A rate structure that includes seasonal, multi-tiered demand, and seasonal TOU energy rates, would more accurately match cost causation with revenue recovery compared to the use of ratchets . . . In UNSE's next rate case, we direct the Company to seriously consider designing rates that match cost causation, as measured by its CCOSS, with revenue recovery, and to evaluate methods of revenue recovery that do not involve ratchets.

And similarly, in the TEP decision, the ACC opined that[52]:

> As we noted in the UNSE rate case, we have concerns about ratchets and believe that seasonal, and or time-of-use demand charges, can provide a more equitable solution to reliable cost recovery . . . In TEP's next rate case, we direct the Company to consider and provide testimony on the use of seasonal and time of use demand charges as an alternative to ratchets . . . The Company's proposed rate design for the LGS Class is reasonable, however the demand ratchet mechanism featured in this rate design may be incompatible with battery storage technology. Therefore, an Optional Rates that does not include the demand ratchet mechanism should be made available for those LGS customers electing to adopt storage technology.

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[48] Commission Decision No. 75697 and); Commission Decision No. 75975

[49] *See* Commission Docket No. E-00000J-16-0257, "Request for New Docket – Reducing System Peak Demand Costs" (July 22, 2016).

[50] *See* Commission Decision No. 75679.

[51] Commission Decision No. 75697 at 83:5-10, 86:9-28.

[52] Commission Decision No. 75975 at 94:9-18, 188:15-18, 193:2-5.

The Commission has made it undeniably clear that it wishes to remove barriers to adoption of energy storage and views ratchets as such an impediment. And in particular, the Commission has expressed this concern as it relates to customers in LGS rate classes. Moreover, the Commission has expressed general displeasure with the ratchet mechanism itself. Thus, the Optional Rates should be adopted as it is in keeping with Commission precedent and objectives.

ii. The Evidence in this Case Supports Adoption of the Optional Rates.

The evidence herein demonstrates three major points. First, that the Optional Rates are cost based. Second, the Optional Rates are revenue neutral. And finally, the Optional Rates will not cause a stranded cost issue as erroneously alleged by APS.

a. The Optional Rates is Cost Based and Revenue Neutral.

The Optional Rates are cost based because they are designed to charge customers based on the costs APS incurs to serve them. APS' allegation that the Optional Rates are not cost based is untrue and unfounded. EFCA witness Garrett explained how the Optional Rates were designed:

> [However], in [Data Request] EFCA 31.5, we asked the company how much the billing determinants would change if the ratchets were removed in the E-32 class. So they provided that information. They said the demand charges would have to increase by 5 percent. And so we used that response to create our rates. So we decreased the billing determinants by 5 percent which had the effect of increasing the demand rates by a little more than 5 percent, so we were conservative in the way we designed the rates. The demand charges are increased by a little more than 5 percent. And so this gives us the cost based rates for this class. And I do think that even the company admits that they're cost based rates for the class.[53]

In other words, the Optional Rates were developed using the billing determinants provided by APS, and the demand charge was increased correspondingly to account for the exact impact of the ratchet removal. APS witness Lockwood admitted the rate was revenue neutral and even indicated that APS appreciated that aspect of the rate.[54] Further APS witness Miessner indicated that the Optional Rates would collect the appropriate amount

[53] Garrett Tr., Vol. VII at 1211:1-15.
[54] Lockwood Tr., Vol. I at 140:14-17, 231:8-16.

of grid costs from the average customer in the class thereby reinforcing the point that the Optional Rates are cost based.[55]

The billing determinants used to create the rate were not exclusive to customers who might want to adopt storage – they reflected all LGS customers.[56] As EFCA witness Garrett explained, APS "would collect the same amount if they had the ratchets or didn't have the ratchets. And so, in other words, they're neutral between the two options. So that allows the customers who don't want to adopt storage to stay on the ratcheted rates and those who do want to adopt storage to stay on the ratcheted rates, but they're the same rates effectively."[57] APS even begrudgingly accepted this conclusion as true.[58] Therefore, the Optional Rates are clearly revenue neutral.

b. APS' Allegation of Cost Shifts are Unfounded

APS spent much of its direct case explaining how unratcheted monthly demand charges were a fair way to send price signals to customers to reduce peak usage while incenting the adoption of energy saving technology like storage. APS specifically argued that monthly demand charges without a ratchet were the solution to the problem of cost shifts included in residential rates. Nevertheless, APS opposed EFCA's Optional Rates by arguing (without evidence) that the proposal would create a cost shift.

APS attempted to justify its contradictory position that unratcheted demand rates are good for residential customers but somehow bad for commercial customers by alleging that it incrementally upgrades the grid to serve individual LGS customers in a way that creates a unique risk of a cost shift resulting from reduced demand from that customer. As a result APS argued, that individual customers who implement storage would not pay the unique costs of the grid investments made just for them and, therefore, they cause a cost shift to others. APS makes this rhetorical claim but the evidence in this case, including APS's own admissions, do not support this argument.

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[55] Miessner Tr., Vol. III at 423:6-11.
[56] Garrett Tr., Vol. VII at 1231:8-1232:2.
[57] Garrett Tr., Vol. VII at 1231:12-1232:2.
[58] Miessner Tr., Vol. III at 423:6-11 (stating it was "probably correct" that the Optional Rates would allow APS to "fully recover the grid investment costs to serve the customer if the customers in that subclass represent the average E-32 L customers.").

Indeed, APS admitted it *did not perform any study or analysis* on which it based its claims of a cost shift. Miessner admitted he performed no study or analysis and was unable to reference any such evidence when asked.[59] The totality of the evidence APS provided in support of its claim of a cost shift (a cost shift that it specifically argued did not exist under the same rate design for other customers) is opinion testimony of APS' own employees that those employees themselves contradict as set forth below.

As EFCA witness Garrett clarified in his testimony, the grid "is almost never upgraded to serve one customer. It would be impractical to add 1,000 kW generation costs or 1,000 kW transmission line or 1,000 kW substation each time a new individual one megawatt customer comes onto the system."[60] The grid costs APS references are "socialized among all customers in the class,"[61] and in the rare event that an individual customer requires a grid upgrade, that customer will generally be responsible for that paying for that upgrade in advance.[62]

Despite the fact that APS' argument that it made unique grid upgrades for LGS customers, was the only argument that APS offered to explain its contradictory positions on demand reduction and storage rates, the Company *could not identify a single grid upgrade* made for individual LGS customers.[63] APS witness Miessner could not identify *any* generation or transmission level upgrades made for these customers,[64] and only claimed that distribution level upgrades "were not uncommon"[65] – while also failing to identify even an estimated percentage of customers who had the distribution grid upgraded just for them[66] or an average cost for these upgrades.[67] APS witnesses Lockwood[68] also could not identify *any* situations where grid upgrades were made to serve individual large commercial customers. In sum, APS claims the ratchet is needed because APS may need

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[59] Miessner Tr., Vol. III at 466:2-13.
[60] Garrett Tr., Vol. VII at 1205:17-22.
[61] Garrett Tr., Vol. VII at 1205:17-23-1206:5.
[62] Garrett Tr., Vol. VII at 1205:17-23-1206:5.
[63] Miessner Tr., Vol. III at 470:21-472:25.
[64] Miessner Tr., Vol III at 470:15-471:2.
[65] Miessner Tr., Vol III at 471:6-9.
[66] Miessner Tr., Vol III at 471:10-11.
[67] Miessner Tr., Vol III at 471:14-16.
[68] Lockwood Tr., Vol. II at 226:3-16.

to make unique investments to serve individual customers in this class, yet the Company is wholly unable to provide *even a single example* of an LGS customer on the receiving end of such a customer specific upgrade.[69]

Without offering any evidence, APS cannot overcome the glaring contradiction between its position on the Optional Rates and its earlier support for residential demand charges without a ratchet. The Optional Rates essentially are the exact same rate design APS lauded for its effective price signals and its ability to incentivize customers to reduce consumption at the time of peak. The Optional Rates accomplish precisely the same objectives APS sought with its residential demand rate proposal.[70]

In addition, APS' projected load growth would almost certainly negate the impact of any theoretical cost shift that might occur because of the adoption of the Optional Rates.[71] Again, EFCA witness Garrett explained that "in the next rate case you will look at the billing determinants there, the revenues there, and redesign rates again. So with the company's proposed load growth of about 3 percent per year, if the rate case happens in two years, that would be 6 percent load growth over the system . . . that's a tremendous amount of load growth that is going to cover up any type of reduction from this class during that time period."[72] In other words, EFCA demonstrated that if you use APS' assumptions for 3% annual load growth, the number of new customers coming on the system and the sales to those new customers will outweigh any reduction in sales to the customers electing to go on the Optional Rates and lower their peak demand. As a result, even if storage was not going to benefit all by reducing the need for expensive infrastructure investments to meet dramatically increasing load growth, the load growth itself would make certain that no one would see higher rates as a result of any reduced usage by those on this Optional Rate.

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[69] EFCA Ex. 9, "[EFCA's] Thirty Third Set of Data Requests To [APS] Regarding The Application To Approve Rate Schedules Designed To Develop A Just And Reasonable Rate Of Return Docket No. E-01345A-16-0036 and Docket No. E-01345A-16-0123 April 18, 2017." ("Data Request 33")

[70] Garrett Tr., Vol. VII at 1219:17 – 1220:13.

[71] Garrett Tr., Vol. VII at 1217:5-11.

[72] Garrett Tr., Vol. VII at 1216:24 – 1217:9.

Finally, the LGS Ratchet Rates are already over-recovering costs for the Company. As APS disclosed in its response to a Data Request, it is recovering just over 105% of its costs since utilizing a ratchet.[73] More importantly, APS also recovered 100% of its costs *before* adopting the ratchet for LGS customers.[74] Given that a ratchet is not necessary to recover the full amount of its costs, and that there was no cost-recovery issue prior to implementation of the ratchet, it follows that the Optional Rates would not result in either underrecovery or cost shift.

In sum, the Optional Rates will not result in a cost shift because the rate is cost based and there is no possibility of any kind of cost shifting between rate cases.[75] And even if there were a revenue shortfall of any kind, APS' substantial projected load growth will undoubtedly remedy the issue.

c. APS has Taken Inconsistent Positions

During the hearing it became clear that APS took inconsistent positions on several important issues. Below is a Table that sets out three of the most obvious inconsistencies between what APS said *before* and *after* it learned that EFCA was proposing the Optional Rates. These excerpts show APS initially arguing that it is "imperative" that rates be implemented to "incent...technology adoption" and then testifying at the hearing in response to EFCA that rates should "not incent technology adoption."

Miessner also testified for APS in his direct testimony that if the "service charge and demand charges in the three-part rate fully recover the grid investment costs to serve the customer, then the bill savings of one customer would not shift costs to other customers." However, after admitting that the service charge and demand charges in EFCA's Optional Rates would fully recover the grid investment costs to serve the customer, Miessner directly contradicted his direct testimony and disagrees that the Optional Rate would not shift costs to other customers.

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[73] EFCA Ex. 9, Data Request 33; Snook Tr., Vol. V at 872:24 – 873:12.

[74] Snook Tr., Vol. V at 873:17-20.

[75] Garrett Tr., Vol. VII at 1216:7-23 ("the other thing about shifting costs to other customers in the class is that that cannot happen between a rate case. So when we start the rates in this case, and as customers get onto the storage option, if there is one made available, that will not shift costs to the other customers, because rates don't change between rate cases. So there is no cost shift between rate cases.").

Finally, in Lockwood's direct testimony she lauded three-part rates as rendering rates technology neutral and incenting new behind the meter technology without shifting costs. However, after learning of EFCA's proposal, Lockwood likened the three-part Optional Rates EFCA was proposing to residential DG rates and she suggests that a large cost shift is likely.

Each of these important contradictions calls into question the veracity of APS' testimony on the Optional Rates.

APS *before* EFCA proposes optional storage rate	**APS *after* EFCA proposes optional storage rate**
"It is *imperative* that APS adopts new rate designs that *incent rational adoption of technologies* by providing accurate price signals for incenting how and when customers use electricity."[76]	Q. Okay. So APS's position is that rate design should *not incent* technology adoption? A. That's *correct.* [77]
"...If the service charge and demand charges in the three-part rate fully recover the grid investment costs to serve the customer, then the bill savings of one customer would not shift costs to other customers."[78]	Q. ...would you agree then, because the service charge and demand charges in EFCA's three-part rate fully recover the grid investment cost to serve the customer, that the bill savings of one customer would not shift costs to the other customers? A. I would disagree with that.[79]
"Three-part rates better track cost of service and incent new behind-the-meter technologies for customers, essentially rendering utility rate design technology neutral."[80]	"[EFCA's proposed three part rate] is directly analogous to the debate that we've been having very contentiously over the last four years over a small number of customers that adopted rooftop solar and the significant cost shift that occurred accordingly."[81]

[76] APS Exhibit 11 at LRS-05DR; APS Long-Range Rate Plan, at 9 of 16 (emphasis added).
[77] Snook Tr. Vol. V 862:6-8 (emphasis added).
[78] Miessner Direct Exhibit APS-4, 21
[79] Miessner, Tr., Vol III 423:20-424:1 (at 423:6-11 Miessner was asked, "Do the service charge and demand charges in the three-part rate that EFCA has proposed fully recover the grid investment costs to serve the customer if the customers in that subclass represent the average E-32 L customers?" Miessner responded, "Yes, I think that's probably correct.")
[80] Lockwood Exhibit APS-1, 21:8
[81] Lockwood, Tr., Vol. I 140:9-13

D. APS' Alternative Optional Rates Proposal is Inadequate and Should Not Be Adopted.

After alleging throughout the hearing that its ratchet rates already adequately incentivize storage, APS altered its position and offered a limited subsidy program apparently designed to overcome the barriers of its rate design. APS made this alternative proposal for the first time through its final witness in the hearing. APS' alternative proposal is inadequate to generate meaningful storage deployment and peak reduction. The proposal retains all the problems featured in the existing LGS Ratchet Rates discussed above, most notably, by retaining the ratchet mechanism itself.[82] This means customers seeking to deploy storage under this alternative proposal would be subject to the same impediments only APS suggests that ratepayers pay them cash subsidies to overcome these impediments. To make matters worse, the declining block demand charge, which sends no price signal and simply acts as an unavoidable fixed charge, is also retained, as is the off-peak demand charge for the TOU customers.

APS would have customers seeking storage attempt to overcome the flawed rate design with an inadequate $2 million annual subsidy. As SWEEP witness Schlegel explained, the preferred approach to encouraging energy efficiency development is not through incentives designed to overcome barriers, but instead to simply remove the barrier itself.[83] And even if subsidizing storage was appropriate, the "problem is it's capped at $2 million. So it can't have meaningful load reduction by the next rate case when we really need it. It would be very minimal load reduction."[84]

Finally, no evidence was presented to support adoption of APS' alternative rate proposal. Indeed, the Company readily admitted that it has not performed any comparative analysis between its proposal and the Optional Rates.[85] APS also did not determine if any peak reduction might result from its proposal.[86] Accordingly, the proposal is not a serious

[82] Garrett Tr., Vol. VII at 1226:2-7.
[83] Schlegel Tr., Vol. VII at 1156:24-1157:9.
[84] Garrett Tr., Vol. VII at 1225:4-10.
[85] Snook Tr., Vol. VII at 1187:12-16.
[86] Snook Tr., Vol. VII at 1187:23-25

attempt at proposing an alternative to a non-ratcheted rate design or addressing peak reduction and should be disregarded.

E. The Optional Rates may easily be Modified to Address any Concerns Raised by APS.

While the evidence does not support making alterations to the Optional Rates, there are three criticisms of the Optional Rates that could be easily addressed if the Commission ordered it. These criticisms are that the Optional Rate: (1) is too narrowly tailored so that it would only benefit customers utilizing energy storage technology; (2) is so broad as to let any customer that attaches a battery of any size to the grid to qualify for inclusion in the Optional Rates; and (3) exposes the Company to risks of underrecovery of its fixed costs. Although EFCA believes that these fears are unfounded and that any modification to the Optional Rates are unnecessary, the Commission could make any of the following minor modifications to the Optional Rates that would directly address each of the above-referenced concerns.[87]

In regards to the critique that the Optional Rates are so narrowly tailored that they only benefit energy storage customers, EFCA is not opposed to allowing customers adopting other energy efficiency mechanisms to qualify for enrollment in the Optional Rates. Specifically, the Optional Rates could be adjusted to "include not just the ability to put energy storage that meets some minimum threshold kilowatt reduction, but also to take other energy efficiency adopters that would similarly meet a minimum kilowatt reduction with their technology."[88] EFCA strove to design the Optional Rates as closely as possible to prior Commission decisions, which particularly focused on removing the barriers to energy storage.[89] But EFCA also believes that ratchets are "a disincentive to storage. EE, CHP, DG, DSM, they're a disincentive to a lot of different technologies."[90] Thus, EFCA is not opposed to modification of the Optional Rates to allow more broad participation of customers utilizing other energy efficiency mechanisms besides storage.

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[87] Garrett Tr., Vol. VII at 1221:21-1222:7, 1246:19-25.
[88] Garrett Tr., Vol. VII at 1255:16-1256:17.
[89] *See e.g.*, Garrett Tr., Vol. VII at 1247:3-5.
[90] Garrett Tr., Vol. VII at 1221:23-1222:3, 1231:1-7.

Addressing the concern that the Optional Rates are too broad and invite customers to attain enrollment and escape the undesirable Ratchet Rates through acquiring minimal storage assets, EFCA is not opposed to the Commission setting a minimum requirement for the size of a storage system to qualify under the Optional Rates. Specifically, EFCA suggests that an appropriate threshold would be for a customer's storage system to serve, at a minimum, 10% of the customer's prior year peak demand.[91] Such a sizing requirement is large enough to ensure that customers in the Optional Rates have made a meaningful investment in energy storage (and thus, is also providing a meaningful benefit to the grid), and small enough so as not to force customers to install too-large of a system that exceeds their needs and would render the investment cost ineffective.[92]

Finally, the Optional Rates were designed to allow APS to recover the full amount of its costs for those moving to the Optional Rates. If, however, the Commission is moved by APS' unsubstantiated allegations of a potential cost recovery shortfall, it could redress this issue by subjecting those on the Optional Rates to the LFCR.[93] According to Miessner, the reason why the LFCR is not charged to the LGS class is because of the ratchet that was implemented for the first time in the last rate case.[94] The only evidence on the subject presented showed that even before the ratchet, APS collected all its fixed costs from the E-32L class.[95] But if the Commission is concerned by APS' unsupported allegations, the LFCR could be charged to those on the Optional Rates in exchange for making the Optional Rates Available.

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[91] Garrett Tr., Vol. VII at 1223:2-18; 1229:10-21.
[92] *Id.*
[93] Garrett Tr., Vol. VII at 1228:6-1229:7.
[94] Miessner Tr., Vol. III at 350:19-351:8.
[95] *See* EFCA Ex. 9, Data Request 33

III. THE PROPOSED SETTLEMENT AGREEMENT IS FAIR AND SHOULD BE APPROVED BY THE COMMISSION AS CURRENTLY PROPOSED.

A. The Settlement Discussions were Open and Every Party Had an Opportunity to Advocate for Their Position.

An essential condition of any settlement process is that it is open, transparent and all interested parties have an opportunity to be heard.[96] The settlement process here met all such conditions. First, all parties received notice of the settlement discussions on December 29, 2016, when APS issued a notice of intent for revenue requirement settlement discussions. Revenue requirement settlement discussion began on January 12, 2017, and rate design settlement discussions commenced on February 6, 2017. Interested party settlement conferences were conducted several times thereafter until the Settlement Agreement was finalized on March 27, 2017.

During these conferences, each party had the opportunity to raise and have its issues considered multiple times during the negotiations. Several varying interests were discussed at the settlement discussions and open dialogue yielded a positive outcome for the pubic-at-large. The interested parties were able to reach agreement on all issues except issues related to the Optional Rates, which is being addressed in this proceeding.

B. The Settlement Agreement promotes the Interests of all Parties and Promote Judicial Efficiency.

Because of the settlement discussions, the final Settlement Agreement yields a balanced compromise between all the parties' varied interests. Specifically, the Settlement Agreement balances APS' revenue requirements while ensuring the longevity of DG and other alternative energies.[97]

APS requested a revenue increase of $165.9 million, and a 5.74% bill impact to retail customers. As a result of the Settlement Agreement, APS has now agreed to a $87.25 million revenue requirement and an average 4.54% bill impact to residential customers.

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[96] *See, e.g., In re Gen. Adjudication Of All Rights To Use Water In Gila River Sys.*, 217 Ariz. 276, 279, ¶ 14, 173 P.3d 440, 443 (2007).

[97] Lockwood Tr., Vol. I at 305:6-306:10; 309:3-16.

The Settlement Agreement also provides a refund to customers through the Demand Side Management Adjustor Clause of up to $15 million to mitigate first year bill impacts of the new rates.

The Settlement Agreement also promotes the continued expansion of DG. The Settlement Agreement does away with herculean mandatory demand charges for DG customers and now provides for four different rate schedules that a DG customer can choose from. The Settlement Agreement also allows for the implementation of the Resource Comparison Proxy Rate ("RCP") addressed in the "Value of Solar" docket.[98] It allows grandfathering of all DG customers with completed interconnection applications filed prior to the effective date of the new rates for a period of twenty (20) years. Finally, it retains full retail net metering for existing grandfathered DG customers.

The Settlement Agreement also promotes judicial efficiency.[99] Rather than litigate the number of substantially similar issues already addressed in the recent utility rate cases and Value of Solar docket, the Settlement Agreement resolves these issues. These provisions have tremendous benefit in that they will reduce the time and resources of the Commission that would otherwise be expended upon litigation. Ultimately, the Settlement Agreement allows these resources to be focused on other matters and prospective policy issues to the benefit of the greater public.

IV. CONCLUSION.

For the reasons set forth above, EFCA respectfully requests that the Commission take the following actions:

(a) Approve the proposed Settlement Agreement without modification; and

(b) Adopt EFCA's Optional Rates as proposed.

Although EFCA advocates for approval of its Optional Rates as-is, it is not opposed to adoption of the Optional Rates with the modifications set forth herein.

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[98] Commission Decision No. 75859, as amended by, Commission Decision No. 75932.
[99] *See, e.g., Grand v. Nacchio,* 214 Ariz. 9, 18, ¶ 24, 147 P.3d 763, 772 (App. 2006).

Respectfully submitted this 17th day of May, 2017.

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